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FISCAL IMPACT STATEMENT

LS 6228

BILL NUMBER: HB 1193

NOTE PREPARED: Nov 24, 2003

BILL AMENDED:

SUBJECT: ICHIA Assessments, Tax Credits, and Limits.

FIRST AUTHOR: Rep. Ripley

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State

Summary of Legislation: This bill limits the annual total assessment to members of the Indiana Comprehensive Health Insurance Association (ICHIA) to \$100 M. The bill provides that the amount of an annual net loss of more than \$100 M shall be assessed to and paid from the state General Fund. It limits payments under an Association policy to \$1 M during an insured's lifetime. This bill also provides for the assignment of unused tax credits by a member of ICHIA for use by a business entity during the same taxable year.

Effective Date: July 1, 2004.

Explanation of State Expenditures:

\$100 M Limit on Assessments to Members: Under current law, any net losses that ICHIA incurs for the year are assessed by the Association to all members of the Association. The bill provides that if the net operating loss of the ICHIA program exceeds \$100 M, the excess shall be paid from the state General Fund. The table below outlines net operating losses for ICHIA from 1997 through 2002.

ICHIA Net Losses (Assessment)		
Year	Assessment	Percent Change
1997	\$18.79 M	
1998	\$25.91 M	37.89%
1999	\$24.13 M	-6.87%
2000	\$34.82 M	44.30%
2001	\$61.41 M	76.36%
2002	\$66.73 M	8.66%

Currently, assessments are made three times a year. The assessment anticipates medical costs and is sent to providers in advance of the payment of medical costs. At the end of each fiscal year, a determination is made to adjust for over-assessments or under-assessments. These adjustments are referred to as “true-ups.” The table above lists the history of net losses through 2002.

Maximum Lifetime Limit: The bill also provides that the maximum amount that may be paid under an Association policy for eligible expenses of an insured during the insured’s lifetime may not exceed \$1 M. If the \$1 M cap were put in place, individuals over the cap would be displaced from the ICHIA program. This provision could limit future assessments. As of August 2003, ICHIA had 9,690 clients. As of November 2003, 10 clients had lifetime claims of over \$1 M. Nine of the 10 had a congenital disorder. The total amount paid for these 10 individuals equaled \$17.3 M in 2002 and equals \$12.3 M year-to-date for 2003. The exclusion of these individuals from the ICHIA program may lower total expenses and reduce the amount of annual assessments. However, the total effect this will have on annual assessments is dependent upon the number of individuals that hit this cap in a given year and the number of new individuals that obtain coverage under the ICHIA program.

Explanation of State Revenues:

Assignment of Unused Tax Credits: This bill may reduce the amount of tax revenue collected. The bill allows members of the ICHIA to assign to another business entity some amount of their unused tax credit. These credits may be used for Premium Taxes, Adjusted Gross Income Taxes, or similar taxes upon revenues or income of the business entity that may be imposed by the state. The amount of credit available for assignment varies depending upon the year the credit was accrued. The member may assign not more than 20% of unused tax credits that accrued prior to January 1, 2005, per calendar year. A member can assign all unused credits accrued in 2005 and in succeeding years.

The fiscal impact of this bill is divided into two portions: credits accrued prior to January 1, 2005, and credits accrued after January 1, 2005.

- Credits accrued prior to 2005: From January 1, 2005, through December 31, 2009, an insurer can assign not more than 20% of credits accrued prior to January 1, 2005, per calendar year. Over this five-year period an insurer will be able to assign all unused tax credits that were accrued prior to 2005.
- Credits accrued after 2005: An insurer may assign all tax credits accrued each year after 2005.

The provisions of this bill will result in lost state tax revenue. The total future revenue lost is dependent upon the amount of tax credits accrued prior to January 1, 2005, but unlikely to ever be used without the ability to assign, and the value of credits accrued and assessments made each year after 2005. The known existing carry forward out of 2002 is at least \$33 M and could be significantly more.

[Note: Beginning October 31, 2002, insurers are required to report the amount of assessments paid and tax credits taken each year. According to a former ICHIA administrator, insurers and HMOs that paid assessments during 1996, 1997, and 1998 were, on average, able to write-off 67.5% of those assessments under the tax credit system. For 2001 assessments, only about 64% of the assessments paid in 2001 were taken as tax credits in that year, and an additional 8% were taken as tax credits in the following year. This left about \$10 M in 2001 assessments not taken as tax credits by the second year. (This is based on incomplete survey information and may be updated later).]

Background: All carriers, health maintenance organizations, limited service health maintenance organizations, and self-insurers providing health insurance or health care services in Indiana are members of the Indiana Comprehensive Health Insurance Association (ICHIA). Prior to January 2003, ICHIA was funded through premiums paid by individuals obtaining insurance through ICHIA and by assessments to member companies (excluding self-insurers preempted by ERISA). The assessments were based on premiums received. Beginning in January 2003, assessments were based on lives covered. Effective July 1, 2003, assessments were based on both premiums received and lives covered.

To be eligible for an ICHIA policy, Indiana residents must show evidence of being denied insurance coverage by one carrier for coverage under any insurance plan that meets or exceeds the minimum requirements for accident and sickness insurance policies issued in Indiana without material underwriting restriction; an insurer has refused to issue insurance except at a rate exceeding the ICHIA plan rate; or the individual is eligible under the federal Health Insurance Portability and Accountability Act (HIPAA). The individual also may not be eligible for Medicaid or Medicare.

The net losses of ICHIA (the excess of expenses over premiums and other revenue) are made up by assessments on member insurance carriers. Members may, in turn, (1) take a credit against Premium Taxes, Adjusted Gross Income Taxes, or any combination of these or similar taxes; or (2) include in the rates for premiums charged for their insurance policies amounts sufficient to recoup the assessments.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of Insurance.

Local Agencies Affected:

Information Sources: Doug Stratton, Executive Director, ICHIA, 317-877-5376; OASYS Assessment Survey (The survey was returned by 276 member companies, 170 of which paid an assessment in 1998. Survey respondents represented over 75% of the ICHIA assessments paid during 1996, 1997, and 1998.) Ann Bingman and Cathy Taylor, Affiliated Computer Services, 317-614-2017.

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